

VILLAGE OF POWERS, MICHIGAN  
SEWER FUND

Powers, MI 49874

AUDITED FINANCIAL STATEMENTS

February 29, 2004 and February 28, 2003

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Village of Powers-Sewer Fund</b>	County <b>Menominee</b>
Audit Date <b>2/29/04</b>	Opinion Date <b>6/18/04</b>	Date Accountant Report Submitted to State: <b>7/20/04</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

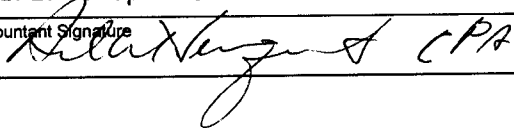
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☒ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			X
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) <b>Henquinet, Unger &amp; Walters, S.C.</b>			
Street Address <b>1727 Stephenson Street</b>	City <b>Marinette</b>	State <b>WI</b>	ZIP <b>54143</b>
Accountant Signature 		Date	

VILLAGE OF POWERS, MICHIGAN

SEWER FUND

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## INDEPENDENT AUDITOR'S REPORT

Trustees  
Village of Powers  
Powers, MI 49874

We have audited the accompanying financial statements of the Village of Powers, Michigan - Sewer Fund, an enterprise fund of the Village of Powers, Michigan, as of and for the years ended February 29, 2004 and February 28, 2003, as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note A, the financial statements present only the Sewer Fund and do not purport to, and do not present fairly the financial position of the Village of Powers, Michigan as of February 29, 2004 and February 28, 2003 and the changes in its financial position and cash flows where applicable for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Village of Powers, Michigan - Sewer Fund as of February 29, 2004 and February 28, 2003, and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Trustees  
Village of Powers  
Page 2

In accordance with Government Auditing Standards, we have also issued a report dated June 18, 2004 on our consideration of the Village of Powers, Michigan - Sewer Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

*Henquinet Unger & Walters S.C.*  
HENQUINET, UNGER & WALTERS, S.C.  
Marinette, WI

June 18, 2004

VILLAGE OF POWERS, MICHIGAN

SEWER FUND  
STATEMENT OF NET ASSETS  
February 29, 2004 and February 28, 2003

	2004	2003
<u>ASSETS</u>		
Current assets		
Cash and investments	\$ 28,488	\$ 20,256
Accounts receivable	15,548	14,405
Due from other governments	5,823	3,849
Total current assets	<u>\$ 49,859</u>	<u>\$ 38,510</u>
Restricted assets		
Cash and investments	<u>\$ 187,094</u>	<u>\$ 142,985</u>
Net capital assets	<u>\$1,880,121</u>	<u>\$1,936,214</u>
TOTAL ASSETS	<u>\$2,117,074</u>	<u>\$2,117,709</u>
<u>LIABILITIES</u>		
Current liabilities		
Accounts payable	\$ 13,367	\$ 6,060
Accrued interest	3,939	4,058
Deferred revenue	876	1,316
Total current liabilities	<u>\$ 18,182</u>	<u>\$ 11,434</u>
Noncurrent liabilities		
Due within one year	\$ 7,000	\$ 7,000
Due in more than one year	527,000	534,000
Total noncurrent liabilities	<u>\$ 534,000</u>	<u>\$ 541,000</u>
Total liabilities	<u>\$ 552,182</u>	<u>\$ 552,434</u>
Net assets		
Investment in capital assets, net of related debt	\$1,346,121	\$1,395,214
Restricted	180,503	136,405
Unrestricted	38,268	33,656
Total net assets	<u>\$1,564,892</u>	<u>\$1,565,275</u>

The notes to the financial statements  
are an integral part of this statement.

VILLAGE OF POWERS, MICHIGAN

SEWER FUND  
STATEMENTS OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS

Fiscal Years Ended February 29, 2004 and February 28, 2003

	<u>2004</u>	<u>2003</u>
Operating revenues	\$ <u>118,593</u>	\$ <u>118,219</u>
Operating expenses:		
Operation and maintenance	\$ 44,718	\$ 61,481
Depreciation	<u>56,269</u>	<u>55,343</u>
Total operating expenses	\$ <u>100,987</u>	\$ <u>116,824</u>
Operating income	\$ <u>17,606</u>	\$ <u>1,395</u>
Nonoperating revenue (expense):		
Investment income	\$ 4,109	\$ 6,151
Other income	1,971	2,839
Interest expense	<u>(24,069)</u>	<u>(24,435)</u>
Total nonoperating revenue (expense)	\$ <u>(17,989)</u>	\$ <u>(15,445)</u>
Change in net assets	\$ (383)	\$ (14,050)
Total net assets - Beginning of year	<u>1,565,275</u>	<u>1,579,325</u>
Total net assets - End of year	<u>\$1,564,892</u>	<u>\$1,565,275</u>

The notes to the financial statements  
are an integral part of this statement.

VILLAGE OF POWERS, MICHIGAN

SEWER FUND  
STATEMENTS OF CASH FLOWS

Fiscal Years Ended February 29, 2004 and February 28, 2003

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:		
Received from customers	\$ 117,010	\$ 114,762
Paid to suppliers for goods and services	(37,819)	(44,328)
Paid to employees for operating payroll	(11,607)	(13,097)
Net cash flows from operating activities	<u>\$ 67,584</u>	<u>\$ 57,337</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	\$ (176)	\$ (125,528)
Debt retired	(7,000)	(6,000)
Interest paid	(12,176)	(24,859)
Net cash flows from capital and related financing activities	<u>\$ (19,352)</u>	<u>\$ (156,387)</u>
Cash flows from investing activities:		
Investment income	<u>\$ 4,109</u>	<u>\$ 6,151</u>
Net cash flows from investing activities	<u>\$ 4,109</u>	<u>\$ 6,151</u>
Net change in cash and cash equivalents	\$ 52,341	\$ (92,899)
Cash and cash equivalents - Beginning of year	<u>163,241</u>	<u>256,140</u>
Cash and cash equivalents - End of year	<u>\$ 215,582</u>	<u>\$ 163,241</u>

The notes to the financial statements  
are an integral part of this statement.



	<u>2004</u>	<u>2003</u>
Reconciliation of operating income to net cash flows from operating activities:		
Operating income	\$ 17,606	\$ 1,395
Noncash items - Operating income:		
Depreciation	56,269	55,343
Changes in assets and liabilities:		
Customer accounts receivable	(1,143)	(3,457)
Accounts payable	(4,707)	4,056
Deferred revenue	<u>(441)</u>	<u>-</u>
Net cash flows from operating activities	<u>\$ 67,584</u>	<u>\$ 57,337</u>
Reconciliation of cash and cash equivalents to balance sheet accounts:		
Cash and investments	\$ 28,488	\$ 20,256
Redemption accounts	4,400	4,392
Reserve accounts	52,132	31,226
Replacement accounts	123,971	100,787
General purpose accounts	<u>6,591</u>	<u>6,580</u>
Cash and cash equivalents	<u>\$ 215,582</u>	<u>\$ 163,241</u>

VILLAGE OF POWERS, MICHIGAN

SEWER FUND  
NOTES TO FINANCIAL STATEMENTS  
February 29, 2004 and February 28, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Village of Powers, Michigan - Sewer Fund have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting principles and policies utilized by the Village are described below:

A. Reporting Entity

The Sewer Fund is an enterprise fund of the Village of Powers, Michigan. The fund provides sewage services to more than 490 residents.

B. Fund Accounting

The accounts of the Village are organized on the basis of funds and account group, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenses.

Proprietary Fund Types

Enterprise Funds - Enterprise Funds are used to account for operations (1) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (2) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The term measurement focus is used to denote what is being measured and reported in the Sewer Fund's operating statements. The Sewer Fund is accounted for on the flow of economic resources measurement focus. The fundamental objective of this focus is to measure whether the Sewer Fund is better or worse off economically as a result of events and transactions of the period.

VILLAGE OF POWERS, MICHIGAN

SEWER FUND  
NOTES TO FINANCIAL STATEMENTS  
February 29, 2004 and February 28, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C. Measurement Focus, Basis of Accounting and Basis of Presentation - Continued

The term basis of accounting is used to determine when a transaction or event is recognized on the Sewer Fund's operating statements. The Sewer Fund uses the full accrual basis of accounting. Under this basis, revenues are recorded when earned and expenses are recorded when incurred, even though actual payment or receipt may not occur until after the period ends.

The Sewer Fund is presented as enterprise funds of the municipality. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business or where the governing body has decided that the determination of revenues earned, costs incurred and net income is necessary for management accountability.

The Sewer Fund has elected to follow Financial Accounting Standards Board pronouncements issued before November 30, 1989, and all pronouncements of the Governmental Accounting Standards Board.

On March 1, 2001, the Sewer Fund adopted the Provisions of Governmental Accounting Standards Board Statement No. 33, Accounting and Financial Reporting for Non-exchange Transactions. The statement requires that capital contributions to the Sewer Fund be presented as revenue.

Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

D. Budgets and Budgetary Accounting

The Village follows these procedures in establishing the budgetary data reflected in the financial statements.

1. Prior to February 1, the Village Clerk submits to the Village Council a proposed operating budget for the fiscal year commencing the following March 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted at Village Hall to obtain taxpayers' comments.

VILLAGE OF POWERS, MICHIGAN

SEWER FUND  
NOTES TO FINANCIAL STATEMENTS  
February 29, 2004 and February 28, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

D. Budgets and Budgetary Accounting - Continued

3. Prior to March 1, the budget is legally enacted.
4. The Council authorize transfer budget amounts between departments within any fund and any revisions that alter the total expenditures of any fund.
5. Formal budgetary integration is employed as management control device during the year for the General Fund, Special Revenue Funds and Proprietary Funds. Budget comparisons are not required for Proprietary Funds.

E. Deposit and Investments

Cash and cash equivalents are considered to have original maturities of three months or less from the date of acquisition.

State statutes authorize the governing body of a village or an agency, board or commission of a village to invest surplus funds in direct obligations of the United States Treasury, in deposit and savings accounts of any federally-insured bank, savings and loan or credit union, commercial paper, United States repurchase agreements, bankers acceptances of U.S. banks, in certain mutual funds, and in investment pools.

Investments are stated at fair value.

F. Restricted Assets

Restricted assets on February 29, 2004 and February 28, 2003 consisted of cash and investments of \$187,094 and \$142,985 held for the following purposes:

	<u>Feb. 29, 2004</u>	<u>Feb. 28, 2003</u>
Bond redemption account	\$ 4,400	\$ 4,392
Bond reserve account	52,132	31,226
Bond replacement account	<u>123,971</u>	<u>100,787</u>
	<u>\$180,503</u>	<u>\$136,405</u>

VILLAGE OF POWERS, MICHIGAN

SEWER FUND  
NOTES TO FINANCIAL STATEMENTS  
February 29, 2004 and February 28, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Restricted Assets - Continued

- Redemption - Used to segregate resources accumulated for debt service payments over the next 12 months.
- Reserve - Used to report resources set aside to make up potential future deficiencies in the redemption account.
- Replacement - Used for significant wastewater treatment mechanical equipment replacement.

G. Compensated Absences

Sick Leave/Vacation

The Sewer Utility neither compensates employees for unused sick leave nor allows accumulation of unused vacation.

H. Capital Assets

Additions to and replacements of property accounts are recorded at original cost, which includes material, labor, overhead, and an allowance for the cost of funds used during construction when significant. The cost of renewals and betterments relating to retirement units is added to property accounts. The cost of property replaced, retired or otherwise disposed of, is deducted from property accounts and, generally, together with removal costs less salvage, is charged to accumulated depreciation.

Interest cost are capitalized when occurred by enterprise funds. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. Capitalized interest cost is amortized on the same basis as the related asset is depreciated.

The provision for depreciation shown in the financial statements results from the application of straight-line rates to original costs over the estimated useful lives of the particular assets.

VILLAGE OF POWERS, MICHIGAN

SEWER FUND  
NOTES TO FINANCIAL STATEMENTS  
February 29, 2004 and February 28, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

H. Capital Assets - Continued

A summary of property and equipment at February 29, 2004 and February 28, 2003 are as follows:

	<u>2004</u>	<u>2003</u>	<u>Depreciable Life-Years</u>
Land	\$ 16,000	\$ 16,000	
Sewer systems	957,109	957,109	50
Improvements	1,586,196	1,586,196	50
Equipment	70,722	70,545	10
Lift station	<u>121,911</u>	<u>121,911</u>	
Total cost	\$2,751,938	\$2,751,761	
Less - Accumulated depreciation	<u>871,817</u>	<u>815,547</u>	
Net carrying amount	<u>\$1,880,121</u>	<u>\$1,936,214</u>	

I. Claims and Judgments

Claims and judgments are recorded as liabilities if all the conditions of Governmental Accounting Standards Board pronouncements are met. Claims and judgments that would normally be liquidated with expendable available financial resources are recorded during the year as expenditures in the governmental funds. If they are not to be liquidated with expendable available financial resources, a liability is recorded in the general long-term obligations account group. The related expenditure is recognized when the liability is liquidated. Claims and judgments are recorded in the proprietary funds as expenses when the related liabilities are incurred. There were no significant claims or judgments at year-end.

NOTE 2 - CASH AND INVESTMENTS

The Sewer Fund maintains various cash and investment accounts.

Deposits and investments in each bank are insured by the Federal Deposit Insurance Corporation (FDIC) in the amount of \$100,000 for interest bearing accounts and \$100,000 for non-interest bearing accounts.

A comparison of bank balances and carrying value at February 29, 2004 and February 28, 2003 are shown below. The difference between the book balance and carrying amount is due to outstanding checks and/or deposits in transit.

VILLAGE OF POWERS, MICHIGAN

SEWER FUND  
NOTES TO FINANCIAL STATEMENTS  
February 29, 2004 and February 28, 2003

NOTE 2 - CASH AND INVESTMENTS - CONTINUED

	<u>2004</u>		<u>2003</u>	
	<u>Bank Balance</u>	<u>Carrying Value</u>	<u>Bank Balance</u>	<u>Carrying Value</u>
Wells Fargo Bank	\$144,087	\$143,053	\$132,015	\$132,015
Menominee Co. Credit Union	<u>72,529</u>	<u>72,529</u>	<u>31,226</u>	<u>31,226</u>
Total Cash and Investments	<u>\$216,616</u>	<u>\$215,582</u>	<u>\$163,241</u>	<u>\$163,241</u>

Of the carrying amount, \$215,582 was covered by FDIC insurance as of February 29, 2004.

NOTE 3 - LONG-TERM DEBT

The following is a summary of debt transactions of the Utility for the year ended February 29, 2004:

The Sewage Revenue Bonds are held by the Farmers Home Administration at an interest rate of 4.5%. The debt is secured by revenue from the sewer system.

Obligations currently outstanding are as follows:

<u>Issue</u>	<u>Interest Rate</u>	<u>Principal Outstanding</u>	
		<u>2004</u>	<u>2003</u>
1997 Farmers Home Administration - Sewage Revenue Bonds	4.5%	<u>\$534,000</u>	<u>\$541,000</u>

VILLAGE OF POWERS, MICHIGAN

SEWER FUND  
NOTES TO FINANCIAL STATEMENTS  
February 29, 2004 and February 28, 2003

NOTE 3 - LONG-TERM DEBT - CONTINUED

Annual debt service requirements to maturity for the debt are as follows:

<u>Year Ending February 29,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 7,000	\$ 24,030	\$ 31,030
2006	7,000	23,715	30,715
2007	8,000	23,400	31,400
2008	8,000	23,040	31,040
2009	8,000	22,680	30,680
2010 - 2014	47,000	107,505	154,505
2015 - 2019	59,000	95,940	154,940
2020 - 2024	73,000	81,495	154,495
2025 - 2029	91,000	51,345	142,345
2030 - 2034	115,000	40,950	155,950
2035 - 2038	111,000	12,780	123,780
Total	<u>\$ 534,000</u>	<u>\$ 506,880</u>	<u>\$1,040,880</u>

Changes in debt during the year were as follows:

	<u>Balance</u> <u>2/28/03</u>	<u>Addition</u>	<u>Reduction</u>	<u>Balance</u> <u>2/29/04</u>
FHA Sewage Revenue Bonds	<u>\$541,000</u>	<u>\$ -0-</u>	<u>\$ 7,000</u>	<u>\$534,000</u>

NOTE 4 - SEGMENT INFORMATION FOR ENTERPRISE FUNDS

Segment information for the year ended February 29, 2004 and February 28, 2003 are as follows:

	<u>February 29,</u> <u>2004</u>	<u>February 28,</u> <u>2003</u>
Operating revenues	\$ 118,593	\$ 118,219
Depreciation	56,269	55,342
Operating income	17,606	1,395
Change in net assets	(383)	(14,050)
Property, plant and equipment additions	(176)	(125,528)
Net working capital	36,492	32,450
Total assets	2,117,074	2,117,707
Revenue bonds payable	534,000	541,000
Total net assets	1,564,892	1,565,275



VILLAGE OF POWERS, MICHIGAN

SEWER FUND  
NOTES TO FINANCIAL STATEMENTS  
February 29, 2004 and February 28, 2003

NOTE 5 - FUND EQUITY

Equity is classified as net assets and displayed in three components:

1. Invested in capital assets, net of related debt - Amount of capital assets, net of accumulated depreciation, less outstanding balance of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted net assets - Amount of net assets that are subject to restrictions that are imposed by a) external groups, such as creditors, grantors, contributors or laws or regulations of other governments or b) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets - Net assets that are neither classified as restricted nor as invested in capital assets, net of related debt.

Net assets reported on the statement of net assets at February 29, 2004 and February 28, 2003 include the following:

	<u>2004</u>	<u>2003</u>
Investment in capital assets, net of related debt		
Land	\$ 16,000	\$ 16,000
Sewer system	957,109	957,109
Improvements	1,586,196	1,586,196
Equipment	70,722	70,545
Lift station	121,911	121,911
Less: Accumulated depreciation	(871,817)	(815,547)
Related long-term debt outstanding	<u>(534,000)</u>	<u>(541,000)</u>
Total invested in capital assets, net of related debt	<u>\$1,346,121</u>	<u>\$1,395,214</u>
Restricted		
Bond retirement	\$ 56,532	\$ 35,618
Plant replacement	123,971	100,787
Total restricted	<u>\$ 180,503</u>	<u>\$ 136,405</u>
Unrestricted	<u>\$ 38,268</u>	<u>\$ 33,656</u>
Total net assets	<u>\$1,564,892</u>	<u>\$1,565,275</u>

NOTE 6 - RISK MANAGEMENT

The Sewer Fund is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; and health care of its employees. All risks are covered through the purchase of commercial insurance, with minimal deductibles.



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND  
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS AND FmHA AUDIT PROGRAM

Trustees  
Village of Powers  
Powers, MI 49874

We have audited the financial statements of the Village of Powers, Michigan - Sewer Fund, as of and for the years ended February 29, 2004 and February 28, 2003, and have issued our report thereon dated June 18, 2004. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and the FmHA Audit Program.

## Compliance

As part of obtaining reasonable assurance about whether the Village of Powers, Michigan - Sewer Fund financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

## Internal Control Over Financial Reporting

In planning and performing our audits, we considered the Village of Powers, Michigan - Sewer Fund financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that,

Trustees  
Village of Powers  
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in our judgment, could adversely affect the Village of Powers, Michigan - Sewer Fund's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We believe the reportable condition described in the Schedule of Findings is a material weakness.

This report is intended solely for the information and use of management and the Village Board of Trustees and it is not intended to be and should not be used by anyone other than these specified parties.

*Henquinnet, Unger & Walters S.C.*  
HENQUINET, UNGER & WALTERS, S.C.

Marinette, WI  
June 18, 2004

VILLAGE OF POWERS, MICHIGAN

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SEWER FUND  
SCHEDULE OF FINDINGS  
Year Ended February 29, 2004

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Financial Statement Finding

Segregation of Duties - The size of the Village's office staff precludes a proper segregation of functions to assure adequate internal control. This is not unusual in a village of your size, but the board should continue to be aware of this condition and to realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable for an effective system of internal control. Under these conditions, the most effective controls lie in the Board's knowledge of matters relative to the Village's operations.